

**Marquette Area
Wastewater Treatment Facility
Marquette, Michigan**

**FINANCIAL STATEMENTS
June 30, 2008 and 2007**

MARQUETTE AREA WASTEWATER TREATMENT FACILITY
Marquette, Michigan
Financial Statements
June 30, 2008 and June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Marquette Area Wastewater Treatment
Facility Advisory Board
Marquette, Michigan

We have audited the accompanying financial statements of net assets, the related statement of revenues, expenses, and changes in net assets and statement of cash flows of the Marquette Area Wastewater Treatment Facility, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Marquette Area Wastewater Treatment Facility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Facility's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Marquette Area Wastewater Treatment Facility, as of June 30, 2008 and 2007, and the respective changes in financial position, and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008, on our consideration of the Marquette Area Wastewater Treatment Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 5 through 7, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures,

Marquette Area Wastewater Treatment
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which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson, Tackman & Co., PLLC
Certified Public Accountants

November 24, 2008

MARQUETTE AREA WASTEWATER TREATMENT FACILITY

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Marquette Area Wastewater Treatment Facility's financial performance provides an overview of the Facility's financial activities for the year ended June 30, 2008. Please read it in conjunction with the financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$5,204,762. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$2,022,929, while revenues from all sources totaled \$1,742,058, resulting in a decrease in net assets of \$280,871.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting on the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets – the difference between assets and liabilities – as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's operating base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to resident to help it cover the cost of services it provides.

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) – (Continued)

Reporting on the Facility as a Whole (Continued)

Table I provides a summary of the Facility's net assets as of June 30, 2008.

TABLE I
Net Assets

	2008	2007
Current and other assets	\$ 3,974,284	\$ 3,951,823
Restricted assets	744,358	652,949
Capital assets, net	16,788,828	6,706,585
Total Assets	<u>\$ 21,507,470</u>	<u>\$ 11,311,357</u>
Current liabilities	\$ 4,041,055	\$ 3,999,937
Non-current liabilities	12,261,653	1,825,787
Total Liabilities	<u>\$ 16,302,708</u>	<u>\$ 5,825,724</u>
Net assets:		
Invested in capital assets	\$ 4,527,175	\$ 4,880,798
Unrestricted:		
Reserved	595,291	522,539
Unreserved	82,296	82,296
Total Net Assets	<u>\$ 5,204,762</u>	<u>\$ 5,485,633</u>

Net assets of the Facility's business-type activities stood at \$5,204,762. Unrestricted net assets – the part of net assets that could be used to finance day-to-day activities stood at \$677,587, of which management has reserved \$457,521 for the Replacement Reserve account, and \$137,770 for the Escrow Reserve account, leaving the \$82,296 unreserved balance.

The \$677,587 in unrestricted net assets represents the accumulated results of all past year's operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table II), which shows the changes in net assets for fiscal year 2008.

TABLE II
Changes in Net Assets

	2008	2007
Operating Revenues		
Service revenues	\$ 1,505,383	\$ 1,212,369
Other operating revenues	23,924	23,812
Total Operating Revenues	<u>1,529,307</u>	<u>1,236,181</u>
Operating Expenses		
Operations	1,525,042	1,250,674
Depreciation	451,498	416,672
Total Operating Expenses	<u>1,976,540</u>	<u>1,667,346</u>
Income/(Loss) from Operations	<u>(447,233)</u>	<u>(431,165)</u>
Non-operating Revenues/(Expenses)		
Grant proceeds	97,875	766,730
Sale of capital assets	11,022	-
Interest income	78,854	71,293
Interest expense	(46,389)	-
Transfers from local units	25,000	25,000
Total Non-operating Revenues/(Expenses)	<u>166,362</u>	<u>863,023</u>
Increase/(Decrease) in net assets	<u>(280,871)</u>	<u>431,858</u>
Net assets, beginning	5,485,633	5,053,775
Net assets, ending	<u>\$ 5,204,762</u>	<u>\$ 5,485,633</u>

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) – (Continued)

Reporting on the Facility as a Whole (Continued)

The Facility's total revenues were \$1,742,058. The total cost of all programs and services was \$2,022,929, leaving a decrease in net assets of \$280,871 as a result of fiscal year 2008 operations.

Due to changes in the GASB 34 requirements, we are no longer adding back the depreciation on the buildings which was paid for by grants from the State and Federal government. Therefore, the City and Townships will continue to show a decrease in their net assets until such time as the buildings are fully depreciated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the Facility had \$16,788,828 invested in a variety of capital assets including land, buildings, and other equipment (See Table III below).

TABLE III
Capital Assets at Year-End

	2008	2007
Land	\$ 192,772	\$ 192,772
Buildings	13,737,419	13,737,419
Equipment and furnishings	202,372	202,372
Vehicles	80,216	80,216
Construction in progress	13,126,258	2,592,517
	<u>27,339,037</u>	<u>16,805,296</u>
Accumulated depreciation	<u>(10,550,209)</u>	<u>(10,098,711)</u>
Totals	<u>\$ 16,788,828</u>	<u>\$ 6,706,585</u>

DEBT

At year end, the Facility had \$12,261,653 in bonds outstanding. Further details on long-term debt can be found in Note I.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In preparing the budget for the year ending June 30, 2009 there appears to be no anticipated changes in operations or funding concerns.

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Marquette Area Wastewater Treatment Facility, 300 W. Baraga Avenue, Marquette, Michigan 49855.

MARQUETTE AREA WASTEWATER TREATMENT FACILITY
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2008 and 2007

	2008	2007
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,653,805	\$ 2,515,474
Accounts Receivable:		
Due from State	2,088,178	1,341,736
Due from Local Units:		
City of Marquette - Water and Sewer Fund	207,693	93,260
Marquette Township	17,683	8,339
Chocolay Township	6,924	(9,494)
Other	-	852
Prepaid expenses	-	1,656
TOTAL CURRENT ASSETS	3,974,284	3,951,823
RESTRICTED ASSETS:		
Vacation and sick leave reserve	149,067	130,410
Replacement Fund:		
Replacement reserve	457,521	390,714
Escrow reserve	137,770	131,825
TOTAL RESTRICTED ASSETS	744,358	652,949
CAPITAL ASSETS:		
Plant and equipment in service	14,212,779	14,212,779
Less: Accumulated depreciation	(10,550,209)	(10,098,711)
Construction in progress	13,126,258	2,592,517
TOTAL CAPITAL ASSETS	16,788,828	6,706,585
TOTAL ASSETS	\$ 21,507,470	\$ 11,311,357
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable local units:		
City of Marquette - General Fund	\$ 3,213,066	\$ 3,225,306
City of Marquette - Motor/Vehicle Equipment Fund	1,190	1,538
Accounts payable	677,732	642,683
Accrued sick and vacation payable	149,067	130,410
TOTAL CURRENT LIABILITIES	4,041,055	3,999,937
LONG TERM LIABILITIES:		
Bonds payable	12,261,653	1,825,787
TOTAL LIABILITIES	\$ 16,302,708	\$ 5,825,724
NET ASSETS:		
Invested in capital assets	\$ 4,527,175	\$ 4,880,798
Unrestricted	677,587	604,836
TOTAL NET ASSETS	\$ 5,204,762	\$ 5,485,634

The accompanying notes to financial statements are an integral part of this statement.

MARQUETTE AREA WASTEWATER TREATMENT FACILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the years ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Services for City of Marquette	\$ 1,308,814	\$ 1,057,718
Services for Marquette Township	119,577	98,213
Services for Chocolay Township	47,347	37,200
Services to other	29,645	19,238
Equipment rental and miscellaneous	23,924	23,812
TOTAL OPERATING REVENUES	1,529,307	1,236,181
Operating Expenses		
Operation labor	346,893	289,541
Operation supplies and expenses	31,460	40,785
Chemicals	123,981	115,353
Purchased power and utilities	154,135	121,655
Education	4,282	4,330
Professional services	314,068	198,312
Administrative:		
Salaries and wages	39,183	74,687
Salaries and wages - other	18,657	(32,425)
Fringe benefits	206,657	196,133
Office supplies	178	112
Professional and contractual	102,966	96,005
Communications	1,847	2,295
Insurance and bonds	40,697	40,374
Rental	1,640	1,592
Miscellaneous	3,702	2,245
Capital outlay	-	-
Depreciation	451,498	416,672
Payment in lieu of taxes	134,696	99,680
TOTAL OPERATING EXPENSES	1,976,540	1,667,346
OPERATING LOSS	(447,233)	(431,165)
Other Income and Expenses:		
Grant proceeds	97,875	766,730
Sale of fixed assets	11,022	-
Interest income	78,854	71,293
Interest expense	(46,389)	-
LOSS BEFORE OPERATING TRANSFERS	(305,871)	406,858
Transfers from local units	25,000	25,000
CHANGE IN NET ASSETS	(280,871)	431,858
NET ASSETS, BEGINNING OF YEAR	5,485,633	5,053,775
NET ASSETS, END OF YEAR	\$ 5,204,762	\$ 5,485,633

The accompanying notes to financial statements are an integral part of this statement.

MARQUETTE AREA WASTEWATER TREATMENT FACILITY
COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operations:		
Collections from customers	\$ 1,881,714	\$ 1,496,763
Payments to employees and service providers	(1,469,680)	(682,016)
NET CASH PROVIDED BY OPERATING ACTIVITIES	412,034	814,747
Cash Flows from Capital & Related Financing Activities:		
Cash received from State for capital asset construction	9,689,424	484,051
Grant funds received	97,875	766,730
Cash paid by local unit for capital asset construction	(504,339)	2,592,517
Cash received from the sale of capital assets	11,022	-
Construction of plant	(10,533,741)	(3,316,642)
Interest paid on bonds	(46,389)	-
Transfers from local units	25,000	25,000
NET CASH PROVIDED BY/(USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(1,261,148)	551,656
Cash Flow from Investing Activities:		
(Increase)/Decrease in restricted assets	(91,409)	674,751
Interest income	78,854	71,293
NET CASH (USED) IN/PROVIDED BY INVESTING ACTIVITIES	(12,555)	746,044
NET INCREASE (DECREASE) IN CASH	(861,669)	2,112,447
Cash, beginning of year	2,515,474	403,027
CASH, END OF YEAR	\$ 1,653,805	\$ 2,515,474
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	(447,233)	\$ (431,165)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	451,498	416,672
(Increase) decrease in accounts receivable	(139,344)	80,808
Decrease in prepaid expense	1,656	430
Increase in payables and accruals	545,457	748,002
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 412,034	\$ 814,747
Non-cash Items:		
Due from the State for anticipated draw downs on the 2007 Revenue Bonds Payable	\$ 2,088,178	\$ 1,341,736

The accompanying notes to financial statements are an integral part of this statement.

MARQUETTE AREA WASTEWATER TREATMENT FACILITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A – DESCRIPTION OF THE REPORTING ENTITY:

On April 19, 1977 and May 31, 1983, the City of Marquette, the Charter Township of Marquette, and the Charter Township of Chocolay entered into contracts to construct and operate a secondary wastewater treatment facility. Under those agreements, the City of Marquette would own 79.8%, the Charter Township of Marquette would own 5.5%, and the Charter Township of Chocolay would own 14.7%. The facility was constructed by the County of Marquette and was financed through a grant from the Environmental Protection Agency for 75% of the costs, a grant from the Department of natural Resources for 5% of the costs, and \$2.5 million general obligation bonds issued by the County of Marquette to the City of Marquette and the two townships. The costs of the project not related to the treatment plan, and the proportionate share of Federal and State grants in aid of construction and related bonds payable, are not recognized in these financial statements, but will be recorded by the local unit to which they pertain. These costs amount to approximately \$2,138,000.

On July 1, 1993, there was an amendment to the Marquette County Wastewater Disposal System contract to change the ownership of the three partners involved. The Charter Township of Marquette paid to the City of Marquette and the Charter Township of Chocolay each the sum of \$54,743, representing an allocation of an additional 4.5% of the capacity of the Marquette Area Wastewater Treatment Facility to Marquette Township. The new ownership percentages for the City of Marquette, the Charter Township of Chocolay, and the Charter Township of Marquette are 77.55%, 12.45%, and 10.00%, respectively.

On June 26, 2006, there was an amendment to the Marquette County Wastewater Disposal System contract to change the ownership of the three partners involved. The new ownership percentages for the City of Marquette, the Charter Township of Chocolay, and the Charter Township of Marquette are 85%, 5%, and 10%, respectively.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Marquette Area Wastewater Treatment Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

- (1) – **Fund Accounting** – Marquette Area Wastewater Treatment Facility is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Marquette Area Wastewater Treatment Facility is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- (2) – **Basis of Accounting** – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- (3) – Mission Statement and Non-operating Revenues and Expenses** – The Facility’s primary mission is to provide wastewater treatment services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility’s primary mission are considered to be non-operating. Non-operating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

Cash and Equivalents –

For the purposes of the statement of cash flows, the Facility considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments –

Investments are stated at fair market value.

Accounts Receivable –

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

Inventory –

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

Land, Buildings, and Equipment –

Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Marquette Area Wastewater Treatment Facility Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 10 to 40 years.

Board-Designated Assets –

Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

Use of Estimates –

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE C – RECONCILIATION OF RECEIVABLE (PAYABLE) ACCOUNTS:

	City of Marquette	Chocolay Township	Marquette Township	Total
BALANCE, JUNE 30, 2006	\$ 134,988	\$ 18,774	\$ 16,689	\$ 170,451
CHARGES:				
Demand related charges	119,897	7,053	14,107	141,057
Flow related charges	988,607	30,614	85,985	1,105,206
General and protective fees	-	1,471	2,942	4,413
EQUITY CONTRIBUTIONS:				
Replacement reserve	22,363	693	1,944	25,000
Earned interest reinvested	50,808	1,573	4,419	56,800
TOTAL CHARGES	1,181,675	41,404	109,397	1,332,476
PREPAYMENTS AND OTHER CREDITS:				
Wastewater services	1,044,507	53,751	98,540	1,196,798
CREDIT FOR OTHER REVENUES:				
Demand related	13,088	770	1,540	15,398
Flow related	37,698	1,167	3,279	42,144
Earned interest reinvested	50,808	1,573	4,419	56,800
Payment-in-lieu rebate	77,302	12,411	9,969	99,682
TOTAL PREPAYMENTS AND OTHER CREDITS	1,223,403	69,672	117,747	1,410,822
NET CHANGE FOR THE YEAR	(41,728)	(28,268)	(8,350)	(78,346)
BALANCE, JUNE 30, 2007	\$ 93,260	\$ (9,494)	\$ 8,339	\$ 92,105
CHARGES:				
Demand related charges	\$ 189,365	\$ 11,139	\$ 22,278	\$ 222,782
Flow related charges	1,203,898	38,042	102,296	1,344,236
General and protective fees	-	1,471	2,942	4,413
EQUITY CONTRIBUTIONS:				
Replacement reserve	22,390	708	1,902	25,000
Earned interest reinvested	42,767	1,351	3,634	47,752
TOTAL CHARGES	1,458,420	52,711	133,052	1,644,183
PREPAYMENTS AND OTHER CREDITS:				
Wastewater services	1,102,279	24,903	98,665	1,225,847
CREDIT FOR OTHER REVENUES:				
Demand related	14,010	824	1,648	16,482
Flow related	61,070	1,930	5,189	68,189
Earned interest reinvested	42,767	1,351	3,634	47,752
Adjustment for retired assets	9,369	551	1,102	11,022
Payment-in-lieu rebate	114,492	6,734	13,470	134,696
TOTAL PREPAYMENTS AND OTHER CREDITS	1,343,987	36,293	123,708	1,503,988
NET CHANGE FOR THE YEAR	114,433	16,418	9,344	140,195
BALANCE, JUNE 30, 2008	\$ 207,693	\$ 6,924	\$ 17,683	\$ 232,300

NOTE D – SEWAGE FLOW INFORMATION USED IN ALLOCATING VARIABLE COSTS:

	2008		2007	
	Sewage Flow (100 C.F.)	Percent	Sewage Flow (100 C.F.)	Percent
City of Marquette	1,352,886	89.56%	1,371,731	89.45%
Marquette Township	114,991	7.61%	119,388	7.79%
Chocolay Township	42,714	2.83%	42,417	2.77%
TOTALS	1,510,591	100.00%	1,533,536	100.00%

NOTE E – DEFINED BENEFIT PENSION PLAN:***Plan Description***

Through the City of Marquette, the Marquette Area Wastewater Treatment Facility contributes to the Municipal Employees Retirement System of Michigan (System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publically available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

The qualified employees of the Fire Department and the Police Department of the City are included in a separate self-administered plan. The employees of the Marquette Board of Light and Power are included in a separate plan. All other full-time employees of the City and the Marquette Area Wastewater Treatment Facility are eligible to participate in the System. Benefits vest after six years for senior management and after ten years for all others. City employees who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, annual benefits are determined by negotiated contractual benefits within statute guidelines. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited services, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Funding Policy

City employees are required to contribute five percent of their annual compensation to the System. The City pays the contribution for senior management. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

Funding information is not available for the Marquette Area Wastewater Treatment Facility as a separate unit. Therefore, the information given is the total of the City of Marquette and the Marquette Area Wastewater Treatment Facility. The City's annual pension cost for the plan was equal to the City's required and actual contribution and amounted to \$625,812, \$700,844 and \$858,658 for the years ended June 30, 2006, 2007, and 2008, respectively. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary

NOTE E – DEFINED BENEFIT PENSION PLAN (continued):

increases of 4.5% a year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten year trend information may be found as follows:

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROCESS

Actuarial Valuation Date December 31,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)÷c] UAL as a Percentage of Covered Payroll
1998	\$15,257,550	\$16,216,678	\$ 959,128	94%	\$ 5,031,270	19%
1999	16,969,765	17,430,314	460,549	97%	4,909,541	9%
2000	18,722,203	20,136,439	1,414,236	93%	4,803,572	29%
2001	20,056,537	23,113,321	3,056,784	87%	5,039,800	61%
2002	20,799,934	24,588,188	3,788,254	85%	5,227,706	72%
2003	22,629,322	25,997,838	3,368,516	87%	5,393,986	65%
2004	24,187,555	28,468,133	4,280,578	85%	5,426,755	81%
2005	25,645,477	33,158,414	7,512,937	77%	5,435,528	159%
2006	26,951,096	36,475,540	9,524,444	74%	5,264,612	183%
2007	28,414,859	38,247,393	9,832,534	74%	5,454,443	182%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending June 30	Valuation Date December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1999	1996	\$ 295,912	100.0%	0
2000	1997	424,066	100.0%	0
2001	1998	381,485	100.0%	0
2002	1999	399,053	100.0%	0
2003	2000	456,453	100.0%	0
2004	2001	521,245	100.0%	0
2005	2002	545,201	100.0%	0
2006	2003	625,812	100.0%	0
2007	2004	700,844	100.0%	0
2008	2005	858,658	100.0%	0

NOTES TO THE REQUIRED SCHEDULES

The required contribution was determined using the entry age normal to actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% per year, compounded annually, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00% to 4.16% per year depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

NOTE F – DEPOSITS AND INVESTMENTS:

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets:

	2008	2007
Current Assets:		
Cash and Equivalents	\$ 1,653,805	\$ 2,515,474
Restricted Assets:		
Vacation & Sick Leave Reserve	149,067	130,410
Replacement Reserve	457,521	390,714
Escrow Reserve	137,770	131,825
	<u>\$ 2,398,163</u>	<u>\$ 3,168,423</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State law does not require and the Facility does not have a deposit policy for custodial credit risk. The carrying amount of the Facility's deposits with financial institutions was \$2,398,163 and the bank balance was \$2,398,163. Of the bank balance, \$300,000, or approximately 9% was covered by federal depository insurance according to FDIC regulations.

Investments

As of June 30, 2008, the Facility had no investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Facility's investments. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the Facility to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of money.

The Facility has no investment policy that would further limit its investment choices. The Facility's investments are in accordance with statutory authority.

NOTE G – PLANT AND EQUIPMENT:

The plant and equipment of the Facility are as follows:

	Balance at June 30, 2007	Additions	Disposals	Balance at June 30, 2008
Land improvements	\$ 192,772	\$ -	\$ -	\$ 192,772
Building and improvements	13,737,419	-	-	13,737,419
Equipment	202,372	-	-	202,372
Vehicles	80,216	-	-	80,216
Less accumulated depreciation	<u>(10,098,711)</u>	<u>(451,498)</u>	<u>-</u>	<u>(10,550,209)</u>
Total Plan Facility in Service	4,114,068	(451,498)	-	3,662,570
Construction in progress	<u>2,592,517</u>	<u>10,533,741</u>	<u>-</u>	<u>13,126,258</u>
	<u>\$ 6,706,585</u>	<u>\$ 10,082,243</u>	<u>\$ -</u>	<u>\$ 16,788,828</u>

NOTE H – RECONCILIATION OF FUND EQUITY:

	City of Marquette Water & Sewer Fund	Township of Marquette	Township of Chocolay	State and Federal	Replacement Reserve	Escrow Reserve	Total
Balance, June 30, 2006	\$ 1,938,806	\$ 247,615	\$ 313,598	\$ 1,388,893	\$ 1,039,625	\$ 125,238	\$ 5,053,775
Contributions by Local Units:							
Capital outlay	615,506	72,413	36,206	766,730	(724,125)	-	766,730
Annual contribution	-	-	-	-	25,000	-	25,000
Earned interest	-	-	-	-	50,214	6,586	56,800
Depreciation	<u>(110,759)</u>	<u>(13,031)</u>	<u>(6,516)</u>	<u>(286,366)</u>	<u>-</u>	<u>-</u>	<u>(416,672)</u>
Net Addition (Deduction)	<u>504,747</u>	<u>59,382</u>	<u>29,690</u>	<u>480,364</u>	<u>(648,911)</u>	<u>6,586</u>	<u>431,858</u>
Balance, June 30, 2007	<u>2,443,553</u>	<u>306,997</u>	<u>343,288</u>	<u>1,869,257</u>	<u>390,714</u>	<u>131,824</u>	<u>5,485,633</u>
Contributions by Local Units:							
Capital outlay	-	-	-	97,875	-	-	97,875
Annual contribution	-	-	-	-	25,000	-	25,000
Earned interest	-	-	-	-	41,807	5,945	47,752
Depreciation	<u>(140,361)</u>	<u>(16,513)</u>	<u>(8,257)</u>	<u>(286,367)</u>	<u>-</u>	<u>-</u>	<u>(451,498)</u>
Net Addition (Deduction)	<u>(140,361)</u>	<u>(16,513)</u>	<u>(8,257)</u>	<u>(188,492)</u>	<u>66,807</u>	<u>5,945</u>	<u>(280,871)</u>
Balance, June 30, 2008	<u>\$ 2,303,192</u>	<u>\$ 290,484</u>	<u>\$ 335,031</u>	<u>\$ 1,680,765</u>	<u>\$ 457,521</u>	<u>\$ 137,769</u>	<u>\$ 5,204,762</u>

NOTE I – LONG TERM DEBT:

On February 12, 2007, the City of Marquette adopted an ordinance for the issuance of the Water Supply and Sewage Disposal System Junior Lien Revenue Bonds, series 2007. The Series 2007 bonds are authorized to be issued in the aggregate principal sum of not to exceed \$15,158,000 for the purpose of paying the costs of improvements to the City's water supply and sewage disposal system. The Series 2007 bonds shall bear interest at a rate of 1.625%. Principal installments on the Series 2007 bonds shall be payable on October 1 of the years 2009 to 2028. Interest on Series 2007 bonds shall be payable on April 1 and October 1 of each year, commencing on October 1, 2007.

NOTE I – LONG TERM DEBT (continued):

On June 29, 2007, the City of Marquette received the first draw down on the Water Supply and Sewage Disposal System Junior Lien Revenue Bonds, Series 2007 of \$484,051. During the fiscal year beginning July 1, 2007 through June 30, 2008, the Facility received draw downs totaling \$9,689,424 for the construction of the water supply and sewage disposal system. Future anticipated draws from the State of Michigan for the Marquette Area Wastewater Treatment Facility for the fiscal year ending June 30, 2008 total \$2,088,178 and result in a total liability of \$12,261,653 as of June 30, 2008

NOTE J – OTHER POST EMPLOYMENT BENEFITS:

Substantially all employees of the Wastewater Treatment Facility are covered under employment contracts with the city of Marquette, which acts as the employer and the employee based on collective bargaining agreements. The Facility pays health care costs on the “pay-as-you-go” basis, whereby the expense is recorded based on premiums paid. No accrual is recorded for future liabilities that may arise for the benefit of terminated or retired employees. The cost of determining the Facility’s share of this potential future liability cannot be readily determined.

NOTE K – CONSTRUCTION IN PROGRESS:

The Wastewater Treatment Facility has active construction projects as of June 30, 2008. The projects are for upgrades to and construction of the water supply and sewage disposal system in conjunction with the bonds noted in Note I. At year end, the Facility’s total construction in progress totaled \$13,126,258 with anticipated future expenditures of these projects estimated at \$3,059,636.

Compliance Supplement



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Marquette Area Wastewater Treatment Facility
Advisory Board
Marquette, Michigan

We have audited the financial statements of the Marquette Area Wastewater Treatment Facility, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Marquette Area Wastewater Treatment Facility's basic financial statements and have issued our report thereon dated November 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette Area Wastewater Treatment Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marquette Area Wastewater Treatment Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marquette Area Wastewater Treatment Facility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Marquette Area Wastewater Treatment Facility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Marquette Area Wastewater Treatment Facility's financial statements that is more than inconsequential will not be prevented or detected by the Marquette Area Wastewater Treatment Facility's internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Marquette Area Wastewater Treatment Facility's internal control.

Marquette Area Wastewater Treatment Facility
Advisory Board
Marquette, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marquette Area Wastewater Treatment Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Marquette Area Wastewater Treatment Facility Advisory Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 24, 2008